WEEKLY MARKET OUTLOOK

21 - 27 August 2017

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Japan: Strong Upside Pressures On The Yen

Japan's growth came in, earlier last week, way higher than forecasts at 1% q/q versus 0.6% for the second quarter. Annually speaking, this release is the best data since 2 years and a half. It also represents the sixth consecutive quarter of positive GDP growth.

Consumer spending has largely improved. Indeed it rose 0.9% from Q1 and beat estimates of 0.5% in Q2. It is true that consumer spending has always been the weakest point of the Japanese economy.

Recent fundamentals are good news for the Bank of Japan which is nonetheless still the only major central bank not able to hint about further tightening. For the time being, those recent good data must at some point translate into inflation. Nationwide inflation stands at 0.4% y/y way below the inflation target of 2% despite the Abenomics and the massive quantitative easing. The BoJ monetary policy can still not be considered as a success. The only inflation created was rather… in the stock market. The Nikkei 225 increased by 16% over the last 12 months.

These improving fundamentals are translating into a strengthening currency. The Japanese yen is on a clear bullish momentum. The currency has outperformed major G-10 currencies since last month. In particular, the USDJPY has weakened from 114 in a month. The rally may now seem a bit over extended and we may see some rebound within the short-term. Anyway the pair is riding a downtrend channel and there are definitely some more room for further weakness.

Japanese bond yield keeps on declining. The 10-year bond is back is heading back towards 0. The current rate is the lowest since last October. This indicates that the demand for inflation-linked bonds are actually very low. Markets are then estimating than inflation should remain low over the next decade!

This is a clear pessimistic view about the economic environment which should remain deflationary. A stronger yen will continue weighing on consumer prices. Japan vicious circle is set to continue. And we remember that a month early the BoJ has downgraded its inflation forecast for fiscal years 17/18 and 18/19. The central bank inflation target seems a difficult objective and upside risks on the currency should very likely continue, especially against the greenback with Trump failing to deliver his reforms.

Economics

RBA To Use Verbal Intervention

AUD bounces back amid broad USD weakness

The Australian dollar has traded with a clear downside bias since the beginning of the month as investors wondered whether further gains were sustainable against the backdrop of a weak inflation reading in the second quarter, mounting expectations for a US dollar rally and the potential reaction of the central bank that is concerned about the negative effects of a strong Aussie on the economy.

The Reserve Bank of Australia published the minutes of its August meeting last Monday. The minutes revealed that the central bank was quite optimistic regarding consumption, saying that "rising employment and stronger household income growth were expected to support consumption growth". However, the RBA noted that, despite a strengthening in economic condition, further appreciation of the AUD could derail the ongoing economic recovery as well as the pick-up in inflation. In the foreseeable future, we expect the RBA to maintain its neutral stance, waiting for the Fed to make the first move. However, further strength in the Australian currency may trigger verbal interventions from Governor Lowe.

Investors favour AUD amid lack of clear driver in this USA

However, over the last couple of days, the Aussie started to gain traction again, with AUD/USD erasing early week's losses and returning above $0.79. Despite being sold-off for several weeks, the greenback is still unable to reverse definitely momentum, mainly because of a continuous flow of negative signals from the US. The minutes of the last FOMC meeting highlighted a broad division among Fed members.

More specifically, the timing of the balance run-off was a major topic of discussion as several members were willing to pull the trigger last month, while the majority preferred to wait. In addition, the worsening of the political situation in the US - many of Trump's business counsellors resigned - dissuaded investors to go long the dollar.

All in all, we think that a USD recovery is becoming inevitable but continues to be delay amid strong political turmoil in the US and lacklustre economic data. Against this backdrop, higher yielding currencies such as the Aussie are naturally favoured by investors. Moreover, the improving economic outlook helps to restore confidence in the export-dependent country. We cannot further Aussie gains in the short-term, however the closer we get to the upcoming Fed meeting, the stronger the USD will be.

Economics

EURCHF Is Heading Higher But Not For Long

The Helvetic currency is suffering against the euro and the pair has been riding up and down between 1.12 and 1.1500. It is the highest level of the CHF since the SNB unpegged the CHF from the euro in January 2015. We nonetheless do not believe that the pair will continue to head towards 1.20 and the ongoing move may not be sustainable in the medium-term.

The fundamentals behind the recent surge of the single currency against the euro appears unclear. The economic and political situation have not changed during the summer. Yet we consider that this is only a catch-up as the euro strengthened against major G10 currencies on growing expectations of the Eurozone recovery.

Markets now expect the ECB to narrow the monetary policy divergence with the Fed. At the ECB meeting that will be held in September, there are strong expectations that the asset purchase programme should be reduced. But the ECB has often been cautious over the past years about tightening measures. This is even truer that inflationary pressures are decreasing. There is a clear risk that markets will get disappointed.

European geopolitical tensions are also very calm during this summer. It is also important to remember that the massive Greek debt issue is far from solved and this will likely weigh again on the European Union unity. We recall that Greece must receive other bailouts only to service its debt. On top of that the debt situation of other European countries will, in lack of inflation, pressure the single currency.

Those basic reasons are our rationale on why downside pressures on the EURCHF pair are set to appear again. Markets definitely overestimate the Eurozone recovery. We consider that it is likely that the pair gets back lower towards 1.10 within the medium-term.

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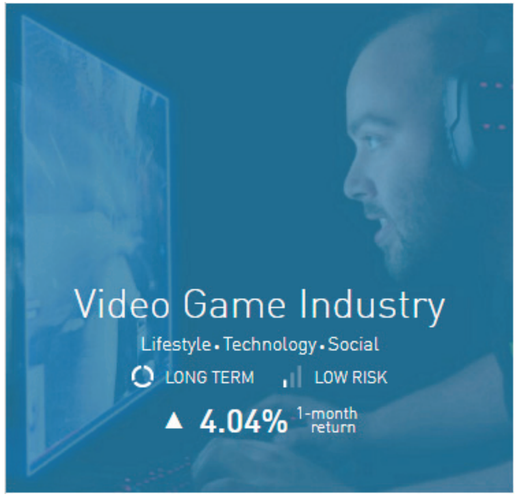
Themes Trading | Video Game Industry

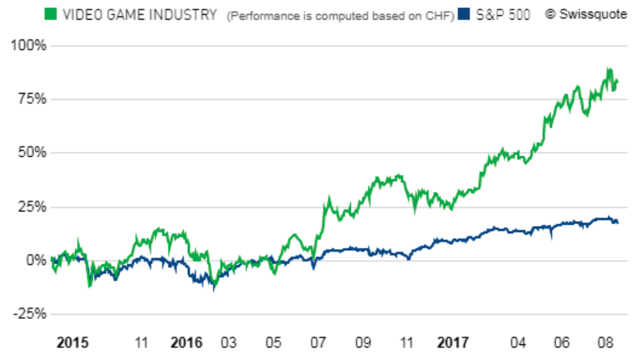
Much ground has been covered since the first video game consoles of the early 70s, which offered only 2D games in black and white and with no sound. Since then, the video game industry has been growing exponentially as computer technology has advanced. Nowadays, blockbuster video games enjoy massive budgets, easily surpassing those of Hollywood movies: budgets in excess of $100 million are not uncommon. According to the ESAF, computer and video game sales in the US alone reached $15.4 billion in 2014, more than double the 2007 figure of $7.3 billion. However, the fastest growth is coming from social network gaming, mobile apps and online gaming, which represent more than 65% of the total revenue.



The video game industry is evolving faster than any other, constantly adapting to the latest technological breakthrough. The industry has already embarked on its latest mutation. However, it's not too late to be a part of it. We built this theme with the aim of offering exposure to the whole video game market, from traditional physical media distribution and console builders to new market entrants. We have overweighted the fast-growing part of the industry, meaning companies active in digital distribution, mobile app development and online gaming-related companies.

Since inception	▲ 83.79%
1-month return	4.04%
Return day	0.84%
Est. dividend yield	0.00%
Inception date	01/07/15

See portfolio details



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